الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Reaffirms Ratings of the Kuveyt Türk Participation Bank

Manama, April 10 2025 – Islamic International Rating Agency ("IIRA") has maintained foreign currency and local currency ratings of Kuveyt Türk Participation Bank ("KTPB" or "the Bank") on the international scale at 'BB+/A3' (Double B Plus /A Three) while reaffirming the national scale ratings at 'AA (tr)/ A1+(tr)' (Double A/A One Plus). Outlook on the ratings is 'Stable'.

Following the cash capital increase in 2024 amounting to TL6.7bn and subscribed fully by the Turkish General Directorate of Foundations ("GDF"), there was a shift in the ownership stake of main shareholders. Kuwait Finance House KSC ("KFH") is still the controlling shareholder, but now with 57.8% stake (62.2% previously) whereas the ownership of GDF has increased to 24.5% from 18.7%. Islamic Development Bank ("IsDB") and Wafra International Investment Company of Kuwait have respective shareholding of 9.0% and 8.4%. Shareholders' structure of the Bank depicting sovereign support is deemed to be a credit positive.

KTPB held assets and deposits market share of 32.0% and 32.9% amongst the participation banks ("PB") and 2.8% and 3.4% in the banking sector at large. The Bank has been performing above peers in terms of profitability, owing mainly to lower than peers deposit cost and strong trading gains. Consequently, the Bank's market share in terms of net earnings is well above its share vis-vis assets and deposits at 54.8% amongst PB peers and at 5.3% of sector earnings in 2024, and marking notable improvement from 50.0% and 4.3% achieved in the year prior.

In 2024, KTPB's asset base grew modestly above its PB peers but below the conventional banks average, as deposit rates of the latter exceeded the PB sector in an increasing rate environment. The bank's growth was driven by FCY denominated financings and was aided by a focus on segments, which were not impacted by Central Bank of Türkiye (''CBT") monthly growth caps, such as exporters and machinery leasing.

In line with the banking sector trends, there was moderate deterioration in gross non-performing financings ('NPF') ratio of KTPB to 1.6% - up from 1.2% in the prior year. Increased incidence in non-performance was driven by deceleration in economic growth and constrained domestic demand, due to the CBT's tight monetary stance and historically high interest rates. Base effects from the previously low stock of non-performing loans also played a role. Meanwhile, there was a modest decline in stage-3 provisioning coverage to 79.8% from 81.3%, taking net NPF ratio to 0.3% from 0.2% and net NPFs to total assets ratio to 0.17% from 0.11%, although indicative of still strong asset quality. In the current year, gross impairment levels would likely continue to increase as the domestic economic growth remains below its potential, financing rates remain high, despite the expected rate cuts from CBT, and current levels of impairment are still well below historical average. In addition, REER appreciation of Turkish Lira vis-à-vis domestic cost inflation puts smaller scale exporters, particularly in the textile sector at a disadvantage.

However, high provision reserves set aside, and the Bank's capital buffers will remain sufficient to mitigate the risks on the asset quality front, over the next 12-18 months.

The funding mix has evolved to reflect the elevated cost of TL deposits in tandem with the tightened monetary stance of the CBT. Accordingly, growth in deposit base was limited to 16.6% and its share within the funding mix retreated to 79.5% from 85.2%. Reflecting also KTPB's strong positioning in precious metal deposits, the weight of TL deposits in total deposit mix remains below the conventional banks average of 60.8% and participation banks average of 51.6%. On a positive note, the current account deposits of KTPB comprised 54.8% of deposit base for 2024, vis-a-vis 48.2% in 2023. In 2025, Turkish Lira deposit growth performance of Kuveyt Turk is expected to ameliorate, as the return offered to deposit holders will likely catch up with conventional banks' deposit return, due to the lagged nature of deposit pricing of Participation Banks.

At the end of year 2024, there was notable strengthening of the CET1 ratio to 20.6% from 18.2% at prior year-end, while total CAR declined modestly to 24.8% from 25.4% on account of repayment of USD200mn tier-2 sukuk. Although reported capital levels incorporate around 4pps support from regulatory forbearance measures, the Bank's CAR is comfortably above the regulatory threshold of 12% even after adjusting for forbearance measures. Considering the current regulatory caps imposed by the Central Bank of Türkiye on financing growth as well as KTPB's above sector internal capital generation and healthy capital buffers, IIRA does not expect any need for external capital support in the next 18-24 months. In case of such need in future, the profile of the main shareholders suggests both willingness and ability to effect a capital injection, or subscribe to supplementary capital instruments.

KTPB's consolidated net income grew by 28.6% in 2024 to TL37.1bn, while conventional banks' net income declined by 3.9% and PB sector witnessed an 18.7% rise in net income. Despite, the increase in net earnings, the return on average assets for KTPB eased to 4.7% from 5.3%, reflecting higher asset growth, yet its ROAA remains well above conventional banks average of 2.1% and PB sector's 2.7%. Superior to peers' performance in profitability was underpinned by strong growth in profit share income with TL9.7bn return on required reserves (versus nil in 2023), 152.9% surge in fee income owing to strong performance in credit cards and POS commissions, as well as negative cost of credit risk, allowing provisioning chargebacks. In 2025, gradual improvement in TL financing-deposit spreads and strong fee income growth would be partly offset by higher provisioning charges and elevated operating expenses in a persistently inflationary environment. Although moderate growth is expected in net earnings during the year, the return on assets is likely to edge down from historically high levels, due to the denominator effect.

The Bank's Participation Banking Governance Framework consists of the Consultancy Committee and a Consultancy Coordination Unit which reports to the Committee whereas the Participation Banking Compliance Unit under the Internal Control Function operates to ensure compliance with the Participation Banking Principles and Standards, Centralized Consultancy Committee and Bank Consultancy Committee decisions.

The Consultancy Committee is charged with the task of providing its opinion on the processes and contracts for all business activities and maintains liaison with other organs of institutional governance including the audit committee of the Board of Directors. The committee meets regularly and in line with regulatory requirements and issues an annual report, which is made part of the Bank's annual report on financial statements. The latest report confirms that following a comprehensive review, the Bank's activities are not in a general way contrary to the principles of participation finance and any amounts received not in compliance with the requirements of participation finance, are set aside to be distributed in charity.

In the year 2024, the KTPB's initiatives on the sustainability front comprised but not limited to the establishment of a 13.7 MWp solar power plant to meet 80% of the Bank's electricity needs, the development of the 2024-2026 Sustainability Strategy and definition and embedding of the key sustainability performance indicators into the unit target sets, a conduct of a prioritization analysis, a start of the technical infrastructure efforts to establish a greenhouse gas emissions inventory system, and an update of the environmental and social sustainability policies. Meanwhile, the Bank also issued its first Integrated Annual Report for the year 2024 underpinning its commitment on transparency and accountability.

For further information on this rating announcement, please contact us at iira@iirating.com